Prince Edward Island

Budget Address
2013

Presented by
The Honourable Wesley J. Sheridan
Minister of Finance, Energy and Municipal Affairs
and Chair of Treasury Board

PRINCE EDWARD ISLAND

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At the Third Session of the Sixty-fourth General Assembly
of Prince Edward Island

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The full texts of the Budget Address, Estimates of Revenue and Expenditure and supporting schedules for 2013-2014 and previous years are available on the Province of Prince Edward Island's website:

http://www.gov.pe.ca/budget

PRINCE EDWARD ISLAND
2013 BUDGET

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THE BUDGET ADDRESS

Introduction

Madame Speaker, I rise in the House today to present the Budget Estimates for 2013-2014.

Our plan for this year remains consistent: Government will encourage growth in our economy while maintaining appropriate fiscal discipline.

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Madame Speaker, in 2007 a plan was initiated to improve our long-term economic prospects.

In brief, that plan is built on a relatively simple foundation.

First, we are building a stronger education system. We have consistently and deliberately pursued that path, because we recognize, a well-educated Island will be able to meet the challenges of a rapidly changing world.

"...a well-educated Island will be able to meet the challenges of a rapidly changing world."

Second, it is very important to take the definitive steps required to ensure that our health and social programs offer the supports and services required by each and every Islander. In fact, our total annual investment in health care has increased by $192 million since 2007 - and permitted the introduction of new medications, a strengthened home care program, 21additional physicians and long overdue improvements to long-term care for seniors.

Third, we recognized that a diversified and resilient economy can be encouraged - by broadening our focus to include emerging sectors in aerospace, information technology, renewable energy and biosciences. There are now 4,500 Islanders working in those sectors.

A key reason for this success is the fact that we began the difficult work of planning for a modernized economy immediately after taking office in 2007.

The work was well underway by the time the recession began in late 2008. Therefore, the Island was in a position to take advantage of new opportunities, while much of the World struggled to preserve the status quo.

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While our economy fared relatively well, another clear challenge emerged as a result of the downturn.

At the outset of the global recession in 2008, the Provincial Government had to expend a great deal of its resources on economic stimulus measures. These measures were costly - but absolutely vital to ensure that Islanders would not suffer unnecessarily from the economic dislocation caused by events far from our shores.

In building the investment, Government recognized that an inevitable result of the recession would be a dampening of provincial revenue.

Therefore, a wide-ranging process to stabilize Government expenditures was initiated.

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As all Islanders know, this expenditure stabilization program excluded health - and investments in education remain at record levels. The pillars of our program - and the evolution of our Island - depend on the maintenance of those investments, regardless of recessionary pressures.

However, a great deal of discipline was imposed relative to other expenditures. As a result, overall program expenditures were reduced by more than $9 million in 2012-13 compared to our original estimate.

Again, this took discipline and deliberate action. And, of course, health care was excluded from expenditure reductions.

Current Year

Madame Speaker, due to the efforts I talked about, we have had to rely less on deficit financing during fiscal year 2012-13 than anticipated.

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The Island is one of the few jurisdictions in Canada to improve on its deficit target - and in fact, we have spent $800,000 less than budgeted.

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This improvement was not easy to achieve because provincial tax revenues were $9.7 million less than anticipated. The reduction in tax revenues was similar to what other provincial jurisdictions across Canada experienced.

Despite that reality, through hard work, we reduced our deficit - and maintained services.

It is important to understand the challenge. Health care was $6.9 million over budget because of increases to in-province physician and acute care hospital costs. But, in keeping with our priorities, these increases were offset by reductions in the expenditures of most other departments.

Listening to Islanders

Madame Speaker, we recently held round-table discussions with Islanders, as part of our pre-budget consultations.

We sat with business leaders, community groups, unions, and individuals who shared their ideas on what direction the Budget should be taking.

Madame Speaker, I heard, very clearly that the people of this Province think it is important to return to a balanced Budget. They recognized that the future success of our economy is tied to a solid plan for our finances.

Les gens ont toutefois clairement indiqué que le plan ne devrait pas comprendre de compressions sévères en matière de services et programmes importants, surtout en ce qui a trait aux soins de santé et à l'éducation.

They were equally clear that the plan should not include drastic cuts to important programs and services, especially in health care and education.

Madame Speaker, the majority of those consulted said we should push our balanced Budget target out one year, to 2015-2016. This will allow the global economic recovery to take effect, which will result in increased revenues for the Province.

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Madame Speaker, I look forward to standing in this House to table a balanced Budget, but it will be a Budget that does not put undue hardship on Islanders to achieve that balance.

Fiscal Balance

Madame Speaker, in 2013-2014 we will make significant progress toward achieving a balanced Budget.

This year, total expenditures will increase by less than two percent over last year's forecast, while revenues are expected to improve by 2.7 percent.

As I have suggested, that plan is simple: We will hold expenditures at current levels, while growing revenues as the economy expands.

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In the next year, we expect most of Government to hold expenditures at current levels. The two exceptions are Community Services and Seniors, and Health PEI which will have increases of 4.6 and 2.9 percent respectively.

Madame Speaker, the long-term sustainability of our provincial pension plans remains a concern. Over the past few years Government has made significant contributions to cover shortfalls in investment returns. Islanders can not be expected to shoulder the total burden for these losses.

"... the long-term sustainability of our provincial pension plans remains a concern."

Other jurisdictions are adjusting their current defined benefit plans to more-appropriately share the risk and ensure benefits are tied to the assets available in the Plans. In consultation with the other stakeholders in the Plans, we will continue to explore options to ensure the Plans have long-term sustainability.

Madame Speaker, we continue to review staffing levels in all Government operations. As positions are vacated, they are reviewed to ensure they continue to be required to meet Government's priorities. Some duties can be eliminated or consolidated as Government continues to evolve. To date, we have achieved many of these reductions through attrition, as the baby boomer demographic moves into retirement.

Salaries currently consume 47 percent of total program expenditures. To meet Management Plan objectives, we will need to ensure compensation increases are affordable. In the near future, we will be sitting down with labour to discuss the Province's financial situation, as we proceed with the collective bargaining process.

Implementing the HST

Madame Speaker, a crucial element in Government's Plan to modernize our economy is the introduction of the Harmonized Sales Tax.

"... a crucial element in Government's Plan to modernize our economy is the introduction of the Harmonized Sales Tax."

The decision to overhaul our outdated system of taxation was not taken lightly. Clearly, there are significant challenges associated with tax modernization - and I appreciate the willingness of Islanders to fully debate and understand the implications of the harmonized tax.

While the policy is controversial, Government remains confident that this measure is needed. The new system will encourage growth in our private sector and create new employment opportunities for Islanders.

The fact of the matter is ... The introduction of the new system will make this Province one of the most attractive locations for business investment in North America.

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For instance, it is estimated that the effective tax rate on new investment by medium and large companies will decline dramatically.

This will move the Island's ranking from the fifth-highest to the fifth-lowest tax burden on new investment, when ranked among the 34 members of the Organization for Economic Cooperation and Development, and other provinces.

Consequently, tax harmonization will encourage the private sector to make new strategic investments across the spectrum of our economy.

While this measure is a cornerstone of our economic plan, Government also recognizes the need for all sectors of the economy to contribute to our collective well-being.

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Currently, Prince Edward Island has a small business tax rate of one percent. In part, the low rate helped to compensate the private sector for the absence of a harmonized tax.

With the introduction of the new system, this particular item is no longer required. Therefore, effective April 1, 2013, the tax rate on small business profits will rise to 4.5 percent. The new rate remains competitive with other provinces in the Region. The dividend tax credit will also be adjusted to improve the integration between the corporate and personal income tax systems.

Madame Speaker, the introduction of the Harmonized Sales Tax will impact other provincial taxes.

Since 2007, Islanders have been paying the lowest provincial gas taxes in the region.

In fact, the 4.4 cent per litre reduction introduced in 2007 kept an estimated $60 million in Islanders' pockets over the last six years.

"...the 4.4 cent per litre reduction introduced in 2007 kept an estimated $60 million in Islanders' pockets over the last six years."

Commencing April 1, 2013, the provincial tax on gasoline will decline by a further 2.7 cents to 13.1 cents per litre. Under the new system, the tax on gasoline will rise - and given current prices for regular self-serve the total provincial tax on April 1 is estimated to be 23.9 cents per litre - which is less than the Maritime average.

Taxes on tobacco will also be adjusted. The nine percent sales tax increase will be mostly offset by a tax reduction of 2.9 cents per cigarette and tobacco stick, and a 1.8 cent reduction per gram of fine cut tobacco. Commencing April 1, 2013, the provincial tax on a carton of 200 cigarettes will be $45 and $35 per 200 grams of fine cut tobacco.

Madame Speaker, one major element of this new system is the ability of Government to ensure that low and modest-income Islanders are shielded from any financial burden.

One mechanism chosen by Government is a system of refundable tax credits. Eligible Islanders will receive up to $200 per year, with payments beginning in July 2013. These credits will be in addition to the Federal compensation system that has been in place for two decades.

"Eligible Islanders will receive up to $200 per year, with payments beginning in July 2013."

Additionally, point-of-sale exemptions of the provincial nine percent portion of the tax have been made to:

- heating oil
- children's clothing
- children's footwear
- printed books.

Madame Speaker, in total these credits and rebates are expected to amount to over $27 million in the next year, as shown in Appendix IV in the 2013-2014 Estimates Book.

Madame Speaker, again, the decision to implement the HST was accompanied by a great deal of thought, analysis, consultation and input. Government remains confident that this element of our economic plan will spur growth and new opportunities for our Island.

"Government remains confident that this element of our economic plan will spur growth and new opportunities for our Island."

The final pillar related to the implementation of the HST ... is the significant reduction in the tax rate from 15.5 to 14 percent. This will also end the practice of applying the provincial sales tax on top of the GST.

Health Care

For six years, Government has been steadfast in its commitment to Island health care.

That commitment to a modern, responsive and accessible health care system remains as a fundamental cornerstone of Government's plan.

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Our challenge is to improve access to services - and help our Island health professionals provide the best possible care.

This year, the increase to health care funding is $16 million, or 2.9 percent.

Some elements of that increased investment include:

- To provide better, safer emergency services, we will be increasing the investment in ambulances. An inter-facility transfer unit and two rapid response units will have an annual operating cost of $748,000.

- Access to timely health care will be greatly improved, with the introduction of an 8-1-1 service. This Budget includes $200,000 to cover operating costs in the next year. This service will provide Islanders with 24/7 access to non-emergency health care, by providing a nurse on the phone, to assess the patient's condition and direct them to the appropriate health care provider, if necessary.

- We will invest an additional $1.5 million to expand services for home and long-term care. This reflects our belief in the importance of home care, which has seen a 91 percent increase in funding since 2007.

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Education

To ensure more opportunities are available for Islanders, we must build the strongest possible education system for our children and youth.

Madame Speaker, we continue to invest heavily in our youngest Islanders. Next year, $231 million will be spent by the Department of Education and Early Childhood Development, representing 16 percent of the Province's program expenditures. This investment will allow educator/student ratios to remain among the best in Canada.

As a small province, we are uniquely positioned to ensure that all Island students enjoy the benefits of a modern education system. In the coming weeks, the Minister of Education and Early Childhood Development will outline plans to enhance technological supports in classrooms across our Province.

Madame Speaker, as a result of the Preschool Excellence Initiative, our Government developed a system of Early Years Centres to ensure consistent, high-quality services are provided for our youngest Islanders. To ensure the growth in the early childhood initiative continues, our Government will increase its commitment to the Early Years Centres by $250,000, bringing the total investment to approximately $7.7 million next year.

"...Government will increase its commitment to the Early Years Centres by $250,000, bringing the total investment to approximately $7.7 million next year."

To further enhance our youngest children's readiness to learn, an additional $60,000 is being committed to the Best Start Program to expand services to include children up to 36 months of age, an improvement over the current 24 months. The total contribution to the Best Start Program is now in excess of $1.2 million.

To maintain access and choice in the area of early years care and education, our Government will continue to provide funding for private early years centres during the coming fiscal year.

Social Action Plan

A clear commitment of our Government is to protect the most vulnerable members of our society, to ensure they have every opportunity to succeed and thrive.

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Based on consultations with Islanders, Government established a three-year plan to reduce poverty. The Social Action Plan was released in May 2012.

To continue to support the needs of low-income Islanders and vulnerable persons, the Budget for the Department of Community Services and Seniors will increase by $4.4 million. Government will now be in a better position to provide for improvements in social programs.

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Building Opportunities for Islanders

As I mentioned earlier, a great deal of work is being done to modernize our economy - and of course, much of that is being driven by the private sector.

In the years ahead, measures like the harmonized tax will permit business the freedom to thrive in a changing economy.

However, it remains vitally important for Government to encourage new and existing entrepreneurs to excel and adapt. Additionally, it is a fundamental role of Government to ensure that as many Islanders as possible are educated and trained to the highest level possible.

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Government's commitment to this area has been crystal clear.

Since 2007, annual support to the University of Prince Edward Island, Holland College and the Collège Acadie Î.-P.-É. has risen from $53 million to $76 million this year.

As a result of new innovations like the George Coles Bursary, there are now 5,184 Islanders attending those institutions - up from 4,009 in 2007.

In 2013, a new Smartforce PEI program will provide $240,000 to Holland College. This will allow businesses and individuals to access on-line learning to enhance their skills. Up to 8,000 on-line courses will be available through the program over the next two years.

Government is also introducing a new, innovative program designed to assist educators, students and parents, to assure success in the job market. The program is for students in junior and early senior high. By engaging Islanders during these formative years, Government hopes that young people will make informed decisions about education and training.

Of particular note is the Self Employment Program. This initiative will have a budget in 2013-2014 of $2 million. The program is designed to assist unemployed Islanders who want to establish their own businesses ... and will provide financial support of $350 per week and workshop training during the first 52 weeks of operation.

Government will also continue to support better access for rural business owners to obtain information on government programs and services. The continued support of Rural Action Centres in strategic locations across the Province will help our Island base of existing firms to become more competitive, successful and positioned for growth.

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Finally, a new Graduate Mentorship Program is providing much-needed work experience in the private sector. The program encourages employers to hire and train recent graduates for work related to their field of study. This program will provide the employer with up to a 70 percent subsidy for wages paid during the first year of the graduate's employment.

Madame Speaker, once again, our focus is on individual Islanders - and growth in our economy. We have consistently applied the principle that education is the key to economic growth - and this belief remains fundamental to our overall plan.

"...once again, our focus is on individual Islanders - and growth in our economy."

Supporting Island Communities

Madame Speaker, the Island Community Fund has supported more than 300 projects and invested in excess of $16 million on community projects since its inception in 2008. Government support for the Island Community Fund will continue, and is a reflection of our confidence in every part of our Province.

"Government support for the Island Community Fund will continue, and is a reflection of our confidence in every part of our Province."

Madame Speaker, Government continues to support Prince Edward Island students to gain valuable work experience under the Jobs for Youth Program. Government also supports Islanders in need who have difficulties securing employment in the private sector, under programs such as Job Creation and the Rural Jobs Initiative.

Agriculture

Madame Speaker, a key element of our economic strategy is to ensure appropriate support for Agriculture. Many of the innovations introduced in the last six years have helped the industry to grow to almost half-a-billion dollars in cash receipts ... a record amount. The sector is now employing close to 4,000 people.

This trend is further evidence of how important agriculture is to our Island. And in a world of growing food demand, Government expects the sector to remain healthy for many years to come.

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Government is also optimistic about the future of Prince Edward Island's beef industry. Therefore we will continue our investment in the Atlantic Beef Products plant. This will be supported by the launch of a new certified Prince Edward Island beef brand.

As we look forward, the Department of Agriculture and Forestry recently signed a new Federal-Provincial agricultural policy framework, Growing Forward 2. The combined investment is $37 million over five years. Growing Forward 2 represents a shift to more proactive strategic investments in innovation and market development to increase the competitive position of agriculture and food products, and to achieve higher returns for producers from the marketplace.

Farmers have always provided good environmental stewardship to our Province. Therefore, we established the Alternative Land Use Services Program to reward landowners for the environmental benefits they provide to society. So far, a total of $2.6 million has been invested in the program and this year, a further $700,000 will be provided to encourage modern environmentally sustainable farm practices.

"...a further $700,000 will be provided to encourage modern environmentally sustainable farm practices."

Fisheries, Aquaculture and Rural Development

Madame Speaker, the Fishery is the economic backbone of many rural communities. Our Government has made key investments in the lobster low-interest loan program; rationalization of the fleet; diversification of seafood markets into areas like China, Japan and Europe; and supports provided for young fishers entering the lobster industry.

In fact, we are currently assisting more than 80 young fishers under the Future Fisher Program with investments of nearly $1 million for the Program over the period between 2012 and 2016.

Aquaculture continues to expand the PEI fishing industry and create jobs in rural areas. Prince Edward Island is world-renowned for its PEI Blue Mussels and Malpeque oysters. The Quality Oyster Aquaculture Program has been re-launched and early indications are that the Program will accelerate industry development.

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Government will also dedicate additional resources to support the PEI Aquaculture Alliance's implementation of a three-year strategic plan.

Madame Speaker, Prince Edward Island offers some of the best high-quality seafood products in the world.

Due to the global recession, we have seen some challenges in the demand for luxury products, such as lobster. As we recover from this downturn and the economy begins to show positive signs, we are confident the demand for our high-quality seafood products will improve and support better returns for our harvesters and processors.

Therefore, it is our role to assist the industry in marketing these products and ensuring that emerging markets are well aware of the high-quality seafood Prince Edward Island has to offer.

Tourism

Madame Speaker, the tourism industry also represents an important component to our communities and makes a significant contribution to our economy. It accounts for about seven percent of our Gross Domestic Product, the highest percentage of any province, and represents approximately $45 million in annual tax revenue.

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Islanders are very anxious to see programming take shape which will help make 2014 a year to remember on Prince Edward Island. With the help of the PEI 2014 Fund, Island communities will be able to join these celebrations.

With the opening of the Convention Center on the Charlottetown waterfront, we are looking forward to a record number of groups visiting Prince Edward Island in the years to come.

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Economy

Madame Speaker, along with the rest of the World, the Prince Edward Island economy is continuing its recovery from the effects of the economic downturn. Fortunately, due to the diverse composition of industries on the Island, these effects have had less of an impact than elsewhere. Consequently, the Island economy has expanded every year throughout this period.

While the global economy is showing signs of recovery, the pace of the recovery is nevertheless slower than anticipated. This has resulted in slower growth in revenues and is delaying a return to balance for many governments.

Last year, the Budget Plan recognized the need to focus on developing the private sector to spur economic growth. In 2011, we noted promising developments in that direction, progress is continuing in 2012:

- Manufacturing shipments continue to recover, increasing for the third year in a row to total $1.28 billion, just short of the pre-recession high recorded in 2007.

- The value of international exports from Prince Edward Island increased 15.2 percent in 2012, the best performance of any province;

- Growing at 3.4 percent, retail sales were the strongest in the Maritime region.

- Our population expanded by 0.3 percent, which was the fastest growth in Atlantic Canada.

- Private sector Capital investment increased by 1.3 percent in 2012 to $698.5 million, the third consecutive year of growth.

"The value of international exports from Prince Edward Island increased 15.2 percent in 2012..."

The economy is expected to expand by 1.4 percent in 2012, and by 1.6 percent in 2013. Expansion will be supported by continued strong growth in manufacturing and exports, which will be offset by slower growth in domestic demand.

Madame Speaker, now that we have achieved the goal of having 75,000 Islanders employed, we will continue to work toward the goals of expanding the economy to $6 billion by 2016, and Island population growth to 150,000 people by 2022.

"...we will continue to work toward the goals of expanding the economy to $6 billion by 2016..."

Three-Year Plan

Madame Speaker, last year we presented our first Three-Year Fiscal Plan. The Plan outlined the road map to a balanced budget based on revenues increasing faster than expenditures.

This Budget continues that Plan. Over the next three years we expect revenues to grow, on average, by 3.1 percent annually, while expenditures will be capped at 1.5 percent.

The Three-Year Plan is based on the following assumptions:

- Revenues will increase at traditional economic growth levels;
- Health expenditures will grow at three percent per year;
- Other departments will maintain expenditures at current levels, while absorbing compensation and inflationary increases;
- Pension plans will be modified to minimize dramatic changes to obligations;
- Federal infrastructure funding will be maintained; and
- Some flexibility will be required for unforseen circumstances.

Madame Speaker, in 2013-2014 the deficit is expected to be at $58.9 million, dropping to $34.5 million in 2014-2015 and achieving a small surplus in 2015-2016. Summary information is included in Appendix VI of the 2013-2014 Estimates Book.

Conclusion

Madame Speaker, as we conclude, I want to reflect a little on the upcoming 150th anniversary of the Charlottetown Conference.

Next year, our Province will celebrate our place as an equal partner in the greatest Country in the modern World.

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In many ways, that celebration will revolve around two themes: We are all so proud to be Islanders, and we are all so proud to be Canadians.

But more than that, the anniversary will permit us to reflect on where we have been as an Island - and where we are headed.

As Premier Joe Ghiz said in 1990 "If we are to have powerful dreams, we must have powerful memories."

"As Premier Joe Ghiz said in 1990 "If we are to have powerful dreams, we must have powerful memories."

In that vein, I am very proud to be a contributor to a plan that both reflects our traditional strengths - and points the way to a better future.

In some cases, this is found in simple matters. For instance, a single English School Board will draw on our collective strengths - and ensure that all Island children are able to benefit from the best we can offer.

In other cases, the Plan is more ambitious. Realigning our health care system from the perspective of the patient is vital. And I congratulate all those with the courage to transcend political preoccupations by focusing on the need for a modern health care system.

Also, I firmly believe that the introduction of a Harmonized Sales Tax - in spite of the political challenges associated with the new system - is exceedingly important in a program to modernize our economy.

In closing, I know that Islanders are often far ahead of their elected representatives when it comes to the formation of public policy. Islanders want courageous decisions - if they are defensible, if they make sense - and if they will promote our collective strength and contribute to a better life for generations to come.

"Islanders want courageous decisions - if they are defensible, if they make sense - and if they will promote our collective strength and contribute to a better life for generations to come."